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UNCLAS SECTION 01 OF 02 KUWAIT 000488

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PASS TO EEB/TPP/ABT/ATP JANET SPECK; NEA/ARP; ATO DUBAI FOR
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SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES - KUWAIT

REF: STATE 39410

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11. Summary: Rising food prices and agricultural commodity prices are having a significant impact on the economy in Kuwait, especially with regard to inflation. Kuwait has experienced an almost 60 percent increase in food prices in the last year. Prices have dramatically increased in the past few months. The GOK has taken some steps to reduce the burden of the price increases on local families. The impact of the price increase has mostly impacted expatriates (who make up approximately two-thirds of the residents of Kuwait) as Kuwaiti nationals benefit from a system of food subsidies.

A few recent government initiatives such as eliminating the requirement for importers to use an agent or distributor may help increase import of food and agricultural goods into the country and reduce prices in the market. An across-the-board pay raise for Kuwaiti nationals of 120 Kuwaiti Dinars (KD) (450 USD) and 50 KD (190 USD) for expatriates has also nominally helped mitigate the rapidly rising cost of living in Kuwait. End Summary.

12. Prices of basic food items like rice, potatoes, milk and corn oil have risen by a minimum of 40 percent and as high as 60 percent in some cases. The price of rice has risen from 200 fils (76 US cents) per kilogram (kg) to 400 fils (1.52 USD) per kg. This is a 100 percent increase in price over the last year. The price of potatoes has risen from 400 fils (1.52 USD) per kg to 650 fils (2.47 USD) per kg. The price of corn oil has risen by 46 percent, from 650 fils per liter to 950 fils per liter (3.60 USD). Flour has also risen by approximately 25 percent to 150 fils per kg (57 US cents).

13. The government of Kuwait has subsidized prices of main staples such as rice, sugar, flour, bread, powdered milk, edible oils and lentils for a number of years. Kuwaiti nationals benefit from this arrangement. Every Kuwaiti family is issued a government ration card that enables them to receive a monthly ration of subsidized staples. For a government paid commission of five percent, the Kuwait Flour Mills and Bakeries Company purchases and stores staple goods through public tenders and delivers the products to assigned distribution centers. Expatriates, including the unskilled labors from poor countries like Bangladesh and India, are not eligible for this program.

4Q Following is a chart of subsidized prices of staples that are available to Kuwaiti nationals:

Item	Subsidized price (in KD)	Market Price (in KD)	Difference (in KD)
Milk Powder	1.05 (4.00 USD)	5.5 (21 USD)	4.45 (17 USD)

Rice USD)	0.12 (0.45 USD)	0.35 (1.30 USD)	0.23 (0.87
Sugar USD)	0.09 (0.35 USD)	0.15 (0.57 USD)	0.06 (0.23
Lentils USD)	0.25 (0.95 USD)	0.5 (1.90 USD)	0.25 (0.95
Corn Oil USD) (2 ltrs)	1.05 (4.00 USD)	2.0 (7.60 USD)	0.95 (3.60

15. On February 19, the Ministry of Commerce and Industry issued a regulation that allows import of food items by any importer without the need to use a local agent or distributor. This measure is intended to stimulate import of food staples from not just the region but from around the world. In March, after months of debates over actual rates, the GOK announced an across-the-board pay increase for Kuwaiti nationals of 120 KD per month (450 USD) and 50 KD per month (190 USD) for expatriates. This pay increase, which is injecting new inflationary pressure into the economy, applies to both the public and private sectors. In April, the GOK announced plans to maintain a food reservoir to address continuing public concern over rapid inflation, especially in food prices.

16. Kuwaiti consumer cooperative societies, which account for 70 to 80 percent of retail food sales, have declared that they are trying to curb price increases by eliminating the middleman and buying directly from suppliers. The cooperatives are reportedly sending buyers to countries in Asia, Europe and Africa in an effort to negotiate agreements and possible price concessions with major food exporters. So far this effort constitutes only a public relations gesture, and it is impossible to predict what impact, if any, it will have.

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